

Alabama prepaid college tuition program value tumbles 45%

Posted by [Stan Diel -- Birmingham News](#) March 03, 2009 6:00 AM

Categories: [Breaking News](#)

The trust fund backing Alabama's prepaid college tuition program has lost more than 45 percent of its value in a year and a half -- including 20 percent lost to the recent stock market collapse -- and program managers are scrambling to find ways to keep paying students' tuition.

The money paid into the fund by the parents and grandparents of thousands of current and future students is uninsured, authorities said Monday.

The Alabama Prepaid Affordable College Tuition trust fund currently has assets totaling \$484 million, said Gregory Fitch, chairman of the Alabama Commission on Higher Education. In September 2007 the fund had assets totaling \$899 million, according to program documents. In September 2008 the fund totaled \$606 million.

Officials with the office of state Treasurer Kay Ivey, which manages the program, referred telephone calls seeking comment to Fitch, a member of the program's board of directors. Ivey late last week mailed a [letter](#) to the 48,000 families with money in the fund warning that it was in trouble.



News file Officials with the state's pre-paid college tuition program are meeting with officials at the University of Alabama and Auburn University to try to strike a deal under which tuition payments could continue.

PREPAID TUITION FUND ASSETS

In millions



Source: PACT Program NEWS STAFF

Officials with the PACT program are meeting with officials at the University of Alabama and Auburn University to try to strike a deal under which tuition payments could continue, the letter said. Most participants in the program attend those universities, or plan to.

"This process will take several weeks, and we ask your patience while we fully explore this opportunity," the letter said.

Asked whether the program might simply fail, Fitch on Monday said: "That's a difficult question."

It wasn't clear Monday whether the trust fund's assets are sufficient to meet its obligations. PACT officials expect to know more within two weeks, and will post updates every Friday by 2 p.m. on a new Web site, www.800alapact.com, Fitch said.

In addition to the reeling stock market, the program is in trouble because tuition is rising faster than planners had expected, and because of a spike in the number of participants enrolling in college from 2006 through 2010, Fitch said.

The prepaid tuition plan offers parents an opportunity to essentially lock in current in-state college tuition rates for children who won't be enrolled in college for many years. For example, the family of a first-grader last year, expected to enroll in college in 2020, could have bought four years of tuition beginning in 2020 for a lump-sum payment of \$24,725.

Not bank deposits

Alternatives allowing payments in monthly installments also are offered, and participants can apply the average in-state tuition in Alabama toward tuition at colleges in other states.

But, as disclosure documents make clear, paying for prepaid tuition is not the same as paying for tuition. The money, which the state invests in stocks and bonds through the trust fund, is not insured like a bank deposit, and the state makes no guarantees that it will still be there when the student is ready for college.

"The Trust Fund and investments under PACT are not bank deposits, and are not debt obligations of, or insured or guaranteed by the FDIC, the State, the Board, the Treasurer, the PACT Program, or any other state or federal governmental agency," a disclosure document says. "None of these entities or persons has any legal or moral obligation to ensure the ultimate payout with the respect to the purchase of a PACT Contract."

States back their prepaid tuition plans to varying degrees. While some offer no assurances, like Alabama, some provide collateral and promise to make tuition payments even if the programs are discontinued.

Florida, for example, guarantees participants within five years of college enrollment that it will pay their tuition even if it ends its prepaid program, and promises to return investments made by others, even if the fund's assets aren't sufficient to do so.

Charlie Haines, owner of Charles D. Haines LLC, a Birmingham investment firm that manages about \$500 million, said questionable investment decisions made by the state led him to steer his clients away from Alabama's program more than 15 years ago. He encourages his clients to consider other states' programs, he said.

'Too aggressive'

Haines said Alabama's assumed rate of return is unrealistic, and requires too much risk. Fund managers also haven't incorporated enough hedging investments to lessen the impact of a downturn in the market, he said.

"We just felt that (the fund) was too aggressive," he said.

According to an actuarial report on the fund filed by the state in January 2008, the fund's managers then assumed a rate of return of about 8 percent until 2013, and 8.5 percent after that. That report also found that the fund's liabilities exceeded its assets by about \$20 million.

According to fund documents, 42 percent of its assets, as of March 2008, were invested in large market capitalization domestic stocks, 9 percent in small market capitalization domestic stocks, 21 percent in international stocks, 26 percent in domestic fixed-income securities and 2 percent in cash.

Efforts to reach officials with associations and trade groups that monitor education funds were unsuccessful Monday -- their Washington offices were closed by a storm making its way up the East Coast. But a spot check of some other states' funds found rate-of-return expectations between 7 percent and 8 percent.